

March 1999

# QUADRENNIAL DEFENSE REVIEW

## Status of Efforts to Implement Personnel Reductions in the Army Materiel Command



---

---

**National Security and  
International Affairs Division**

B-281817

March 31, 1999

Congressional Committees

In May 1997, the Secretary of Defense issued the Report of the Quadrennial Defense Review (QDR), which directed the Army to reduce personnel to help free up funds to be used to modernize the force. The Army expected that the Army Materiel Command (AMC) could significantly reduce the number of its civilian personnel by increasing reliance on the private sector. Congress has been concerned about the extent of reductions in AMC over the years. Accordingly, the Strom Thurmond National Defense Authorization Act for Fiscal Year 1999 required us to review the personnel reductions in AMC that were directed as a result of the QDR. Specifically, this report addresses (1) AMC's plans and time frame for achieving the reductions, (2) the projected cost savings from such reductions, and (3) the cited impacts the reductions will have on workload and readiness.

---

**Results in Brief**

The Army Materiel Command has identified various initiatives to eliminate 8,530 civilian positions by fiscal year 2004 as called for in the Quadrennial Defense Review. The majority of the reductions are now based on planned organizational changes, operating efficiencies, and anticipated future workload decreases, with lesser emphasis on competitive sourcing studies than originally anticipated by the defense review. About 20 percent of the reductions are expected to occur over the next 2 years, and actions are underway to achieve the majority of these reductions. Most, or about 80 percent, of the reductions are expected to occur in fiscal years 2001 through 2004. However, plans for some of these reductions are still being finalized and uncertainties exist about some of these plans.

The Army estimated that the personnel reductions in the Command would result in \$1.4 billion in cumulative savings from fiscal year 1999 through 2004 and \$589 million in annual recurring savings thereafter. Our analysis indicates that estimated savings will be less than anticipated both in the short and long term. The Army did not account for all of the investment costs that would be required to achieve the savings. For example, the Tank-automotive and Armament Command estimated that about \$35 million in investment costs were not included in the Army's analysis of projected savings. Also, the Army did not estimate all the personnel separation costs likely to be associated with implementing the reductions. Additionally, about \$21 million in savings estimated for fiscal year 2000

---

could be delayed because competitive sourcing studies are taking longer to complete and implement than planned. Furthermore, the savings are overstated by an estimated \$52 million at least through fiscal year 2005 because the Army used higher than average civilian salary costs to compute its savings. Further, long-term annual recurring savings to the Army are likely to be as much as 17 percent lower than expected since some planned personnel reductions reflect positions funded by non-Army organizations for work done on a reimbursable basis.

Because most of the Quadrennial Defense Review reductions will occur between 2001 to 2004, much of the impact on workload and readiness is yet to be determined. Army Materiel Command officials, while expressing concerns about challenges they face in meeting the reductions, could not point to any significant adverse effects to date other than on employee morale. Command officials stated that the ongoing reductions continue to have only marginal impacts on operations, which they have dealt with so far through various reorganizations and reengineering actions. The Command also faces additional personnel reductions beyond those mandated by the Quadrennial Defense Review.

We are not making any recommendations in this report because it appears that the Command has enough options to help achieve its reduction goals by fiscal year 2004. However, as we noted, the savings estimates associated with these reduction goals are overstated.

---

## Background

AMC is responsible for weapon systems development, advanced research, and the maintenance and distribution of spare parts. With its headquarters in Alexandria, Virginia, AMC accomplishes its mission through nine major subordinate commands that direct the operation of numerous activities—depots, arsenals, ammunition plants, laboratories, test activities, and procurement operations. AMC is funded through direct appropriations and reimbursements from the Army's Working Capital Fund,<sup>1</sup> other Army activities, and non-Army sources. Approximately 63 percent of AMC's civilian positions are funded through reimbursements.

In May 1997, the Department of Defense (DOD) completed the QDR, a comprehensive review of national security threats, risks, and opportunities facing the United States to 2015. According to DOD, this

---

<sup>1</sup>Under this funding arrangement, applicable to a variety of business activities, an Army activity, such as AMC, sells goods and services on an inter and intraservice basis on predetermined rates designed to recoup operating costs. Working capital fund customers pay for the goods and services, primarily with operation and maintenance funds appropriated by Congress.

---

review intended to provide a blueprint for a strategy-based, balanced, and affordable program. The review directed the Army to reduce 17,366 civilian positions. The Army allocated 8,530 of these reductions to AMC. The Army assumed that AMC could eliminate 6,980 positions by conducting public/private competitive sourcing studies<sup>2</sup> and another 1,550 positions through implementing other organizational efficiencies. Appendix II shows the planned reductions among AMC subordinate organizations.

The QDR reductions continue the downsizing of AMC that started in 1989. Between fiscal year 1989 and 1997, AMC reported reducing the number of its civilian positions from about 102,000 to 62,000, or 38 percent, as part of DOD's overall downsizing. Prior to the QDR, the Army had planned to reduce AMC to about 56,000 civilians by fiscal year 2003. The QDR will reduce AMC to about 48,000 positions by fiscal year 2004. In addition to reductions called for in the QDR, the Army plans to reduce AMC civilian authorizations by another 2,000 positions between fiscal year 2000 and 2005.

---

## Plan for Achieving the Personnel Reductions Is Evolving

The Army's plan for achieving its AMC personnel reduction goals are still evolving. However, given the large number of initiatives, there should be sufficient opportunities to achieve the reductions. The Army originally planned to achieve most of AMC's QDR reductions (about 7,000) through competitive sourcing studies. However, the number of positions initially considered suitable for such studies is now considerably smaller and the Army is still uncertain about how many positions will actually be studied. Consequently, AMC now expects to achieve most of its personnel reductions through other initiatives to streamline its organization and achieve operational efficiencies. AMC is making its initial QDR reductions during fiscal year 1999 and 2000; however, some of the reductions are expected to take longer to implement than initially anticipated.<sup>3</sup> Most, about 80 percent, of the total reductions are expected to occur between fiscal year 2001 and 2004.

---

## Basis for the Reductions Has Changed

To achieve the QDR reductions, the Army assumed that about 35,000 of AMC's civilian positions could be subjected to competitive sourcing studies. However, in October 1998, after completing action on a DOD directive that

---

<sup>2</sup>These competitive sourcing studies were to be done employing the Office of Management and Budget Circular A-76 process. See appendix I for a detailed description of the A-76 process.

<sup>3</sup>We have reported that while we believe that competitive sourcing studies are likely to produce savings, we have indicated some uncertainties exist about the magnitude of long-term savings. See *DOD Competitive Sourcing: Questions About Goals, Pace, and Risk of Key Reform Initiative* (GAO/NSIAD-99-46, Feb. 22, 1999).

---

all components uniformly reassess the number of positions that were commercial in nature and that could be subject to competitive sourcing studies,<sup>4</sup> the Army concluded that only about 19,000 AMC positions were clearly suitable for study. It found that nearly 11,000 additional positions might be candidates for study but first required additional assessment. This further assessment is expected to be completed by November 1999.

In the short term, AMC was left with a still substantial study universe of about 19,000 positions. Of that universe, nearly 2,400 positions were already under study. Since then, studies of about 6,800 additional positions have begun. AMC officials have expressed some uncertainty about the extent to which studies of the remaining positions will be made because they include significant numbers of secretarial and administrative positions as well as some positions in functions that AMC plans to seek waivers to Circular A-76 requirements.

While competitive sourcing studies remains a key tool to help achieve the planned reductions, AMC has turned its attention to other ways of achieving the personnel reductions. These initiatives can result in significant reductions and include such actions as position elimination, organizational realignments, and reengineering of functions. The range of initiatives AMC expects to use to achieve its reductions and the year the reductions are expected to occur are shown in table 1.

---

<sup>4</sup>Defense Reform Initiative Directive 20 required DOD organizations to review all of their positions involved in performing commercial activities and identify those that could be subject to a competitive sourcing study.

**Table 1: AMC Initiatives to Achieve the QDR Reductions by Fiscal Year**

<b>Initiative</b>	<b>1999</b>	<b>2000</b>	<b>2001</b>	<b>2002</b>	<b>2003</b>	<b>2004</b>	<b>Total</b>
Redesign the commodity commands	18		344	761	849		<b>1,972</b>
Restructure the research, development, and engineering centers				13	885	669	<b>1,567</b>
Compete functions at Watervilet, Pine Bluff, and Rock Island arsenals				630			<b>630</b>
Compete functions in the Test and Evaluation Command			545				<b>545</b>
Reengineer selected functions	46	72	196	117	14	79	<b>524</b>
Compete base operations in the Industrial Operations Command		469		17			<b>486</b>
Merge the Chemical and Biological Defense Command and the Soldier Systems Command	2	131		20	91	178	<b>422</b>
Redesign the Army Research Laboratory	3			120	100	194	<b>417</b>
Decentralize and transfer depot management from the Industrial Operations Command to individual commodity commands	1	378		21			<b>400</b>
Reengineer the Logistics Support Activity			111	140	59		<b>310</b>
Privatize software activities in the Communications-Electronics Command		257					<b>257</b>
Reengineer three analytical activities			148	84			<b>232</b>
Reduce test requirements in the Test and Evaluation Command			185				<b>185</b>
Compete the Test, Measurement, Diagnostics, and Equipment Activity		178					<b>178</b>
Consolidate war reserve sites in Europe		153		22			<b>175</b>
Compete base operations in the Aviation and Missile Command, the Tank-automotive and Armaments Command and the Communications-Electronics Command		24	83	25			<b>132</b>
Compete positions involved in ammunition demilitarization		66					<b>66</b>
Reduce positions at various ammunition plants		4	9	19			<b>32</b>
<b>Total</b>	<b>70</b>	<b>1,732</b>	<b>1,621</b>	<b>1,989</b>	<b>1,998</b>	<b>1,120</b>	<b>8,530</b>
Percent <sup>a</sup>	1	20	19	23	23	13	<b>100</b>

<sup>a</sup>Percent figures do not add exactly due to rounding.

Source: Army data.

---

AMC plans to restructure its commodity commands through competitive sourcing studies, privatization of selected functions, and reengineering business processes. The commodity commands include the Aviation and Missile Command, the Communications-Electronics Command, and the Tank-automotive and Armaments Command. Likewise, the research, development, and engineering restructure initiative involves reorganizing and restructuring the research centers to focus on critical core competencies as well as conducting competitive sourcing studies on selected functions. The initiative involves the same commands as well as the Soldier and Biological Chemical Command.

In addition to these initiatives, the Army is considering a much broader reorganization of AMC. However, details of this proposed reorganization were not made available to us; therefore, we were unable to assess any potential impact such a reorganization may have upon existing personnel requirements.

---

## Reductions in Fiscal Year 1999 and 2000

AMC expects to eliminate about 1,800 positions during fiscal years 1999 and 2000. In fiscal year 1999, it plans to eliminate 70 positions of which, about half will be obtained by eliminating vacant positions in headquarters. The remaining 1,732 positions are to be eliminated in fiscal year 2000 through a combination of factors, including competitive sourcing studies and ongoing initiatives to decentralize and transfer responsibility for managing the depots from the Industrial Operations Command to individual commodity commands, consolidate war reserve sites in Europe, and merge two commands.<sup>5</sup> However, some of the initiatives may not be implemented during fiscal year 2000 as planned. Table 2 shows that 713, or 41 percent, of the 1,732 reductions planned for fiscal year 2000 could be delayed and a final decision has not been made regarding another 257 positions.

---

<sup>5</sup>The Chemical and Biological Defense Command and the Soldier Systems Command were merged into the Soldier and Biological Chemical Command.

**Table 2: Status of Initiatives to Achieve QDR Reductions in Fiscal Year 2000**

Initiative	Number of positions		
	On time	Delayed	Decision pending
Competitive sourcing:			
Base operations		469	
Test, measurement, diagnostics, and evaluation		178	
Ammunition demilitarization		66	
Privatize software activities			257
Transfer responsibility for depot management	378		
Consolidate war reserve sites	153		
Merge two commands	131		
Other	100		
<b>Total</b>	<b>762</b>	<b>713</b>	<b>257</b>
Percent	44	41	15

Source: Our analysis of Army data.

The primary reason some initiatives are being delayed is that competitive sourcing studies are taking longer to complete and implement than planned. AMC officials stated that they are assessing options to deal with the impact of these delayed studies. AMC also planned to eliminate 24 positions in fiscal year 2000 through competitive sourcing studies of some base operations functions in the Aviation and Missile and the Tank-automotive and Armaments Commands. However, officials at these commands stated that they now plan to eliminate vacant positions rather than conduct the studies.

As shown in table 2, AMC plans to privatize some software design activities in the Communication-Electronics Command that would eliminate 257 positions. Under this initiative, the Army wants to modernize its wholesale logistics functions by awarding a long-term contract to a single vendor that will (1) operate the Army's existing wholesale logistics software system, (2) reengineer the wholesale logistics business processes, and (3) customize a commercial off-the-shelf software system, which it will operate. However, to implement this initiative, AMC sought a waiver to Circular A-76 requirements. At the time we completed our work, the Army had not approved or disallowed the waiver.

---

## Reductions in Fiscal Years 2001 to 2004

AMC has identified initiatives to eliminate the remaining 6,728 positions between fiscal year 2001 and 2004. Most of these reductions depend primarily on AMC's ability to restructure the commodity commands, redesign the research, development and evaluation centers, and complete competitive sourcing studies on its arsenals. These three initiatives account for 4,174, or 62 percent, of the planned reductions.

AMC plans to eliminate 1,972 positions under the initiative to redesign its commodity commands. Our work at two of the three commodity commands indicates that plans to achieve the reductions are still being developed. For example, the Tank-automotive and Armaments Command plans to reengineer its business processes and implement an integrated data environment to absorb the reductions. According to Tank-automotive and Armaments officials, the Command plans to implement its new organizational structure in fiscal year 1999, and then start to identify and prioritize the various business practices to be reengineered. The Aviation and Missile Command plans to achieve its reductions primarily through implementing the prime vendor support concept<sup>6</sup> on selected systems. The Apache was selected as the first system; however, the implementation plan is still under review within the Army.<sup>7</sup> An Aviation and Missile Command official stated that the Command's ability to achieve the reductions relies primarily on replicating the Apache concept to other weapon systems.

Another major initiative involves plans to redesign the research, development, and engineering centers and eliminate 1,567 positions. To achieve its reductions, the Aviation and Missile Command plans to combine the aviation and missile research centers and eliminate positions at some satellite locations and some performing lower priority work. Aviation and Missile Command officials stated efforts are underway to prioritize their workload. Likewise, the Tank-automotive and Armaments Command plans to achieve efficiencies by consolidating similar functions between its two research centers, as well as through projected decreases in workload.

AMC expects to eliminate 630 positions in fiscal year 2002 by conducting competitive sourcing studies at its three arsenals. However, Army

---

<sup>6</sup>Prime vendors typically are contractors that buy inventory from a variety of suppliers, store it in commercial warehouses, and ship it to customers when ordered. In the case of the Apache helicopter, the prime vendor concept is much different in that a contractor provides all logistics support along with continuous product improvement and modernization.

<sup>7</sup>Much controversy and uncertainty surround this initiative in terms of its cost-effectiveness and impact on other organizations and entities such as the Defense Logistics Agency and the Army Working Capital Fund. It is also the subject of one of our reviews.

decisions since the QDR could affect the positions to be studied. For example, AMC planned to study about 2,600 positions at the Rock Island and Watervilet Arsenals, which AMC assumed, would achieve about 490 of the 630 planned reductions. However, in fiscal year 2000, the Army plans to reduce the personnel levels at the two arsenals by about 680 positions, which would reduce the study universe to about 1,900 positions. Using the revised universe and AMC's assumption of a 20-percent saving, only 380 positions would be eliminated, or 110 fewer positions than anticipated. AMC officials stated that the Army is considering an option to convert the Watervilet Arsenal to a government-owned contractor-operated facility, which could impact the ongoing competitive sourcing study.

## Savings Are Likely to Be Less Than Anticipated and Take Longer to Be Realized

The Army expected to achieve cumulative savings of an estimated \$1.4 billion between fiscal year 1999 and 2004 and an estimated \$589 million in annual recurring savings thereafter from QDR civilian reductions in AMC. While these reductions are expected to achieve savings, our work indicates that savings in both the short and long term are likely to be less than expected and take longer to be realized. The savings totals will be lower in the short term because not all of the investment costs required to achieve the reductions were considered. Also, some of the savings programmed for fiscal year 2000 will be delayed because competitive sourcing studies that are underway are taking longer to complete and implement than planned. The Army used higher than average civilian salary costs to compute the estimated savings. Further, not all of the savings will accrue to the Army because some positions to be eliminated are funded by non-Army activities.

The estimated savings did not include all the investment costs required to implement some initiatives. This will delay savings being achieved within the estimated time frames. For example, the Tank-automotive and Armaments Command requires \$35 million to implement an integrated data environment as part of its plan to perform its mission with less personnel. Command officials stated that these costs are required for contractor support of network and database management. Likewise, the Soldier and Biological Chemical Command plans to install new security equipment at various sites, which would enable it to reduce the number of security guards. According to the Command's Director for Resource Management, the current estimate for the technology improvements is \$10 million. Finally, the Army War Reserve Support Command estimates that it will cost \$2.5 million to move equipment to consolidate war reserve storage sites in Europe.

---

The Army also did not fully calculate the personnel separation costs associated with the QDR reductions in AMC. On the basis of its average separation cost<sup>8</sup> of \$21,000 per employee, the Army's Office of Program Analysis and Evaluation programmed separation costs of about \$150 million for 6,980 employees, or 20 percent of the study universe. Should AMC increase its competitive study candidates, these costs could increase significantly. Assuming that the private sector continues to win competitions at the historic rate of 50 percent, AMC could transfer work involving between 9,500 and 15,000 positions to the private sector.

The Army expected to save about \$21 million in fiscal year 2000 by implementing the results of various competitive sourcing studies. As previously discussed, these studies may not be completed during fiscal year 2000, which will delay the savings. AMC officials stated that they are reviewing options to fund the affected positions until the studies are implemented.

The Army used average salary costs for each fiscal year to estimate the savings. The Army assumed that after accounting for reductions, AMC's average civilian salary costs would still increase 2 percent per year between fiscal year 1999 and 2005, except in fiscal year 2001, when the average salary would increase by 14 percent. When we brought this to the attention of Army officials, they could not explain the reason for this increase but stated that they are reviewing the methodology used to compute average civilian salary. Had the Army applied a 2-percent increase consistently through fiscal year 2005, we estimate that the total savings would be reduced by about \$52 million.

Approximately \$303.6 million, or 52 percent, of the estimated recurring savings is based on eliminating positions that are directly funded by AMC. An additional \$182.6 million, or 31 percent, of the estimated recurring savings is based on eliminating positions funded by other Army organizations; these savings will accrue to the Army but not specifically to AMC. The remaining \$103 million, or 17 percent, of the estimated recurring savings is based on eliminating AMC positions that are essentially funded by non-Army organizations through reimbursements for services provided. While this will reduce personnel levels in AMC, the dollar savings will accrue to other organizations. For example, the Army is reimbursed for missile tests that it conducts for the Air Force or the Navy. According to AMC officials, the personnel reductions should not affect the reimbursable

---

<sup>8</sup>This average covers the costs of voluntary early retirement, voluntary separation incentives, and involuntary separations through reduction-in-force procedures.

---

work because they expect to continue to do the work with fewer personnel.

---

## Impact of Reductions Has Been Limited

Since most of the QDR reductions will occur between fiscal year 2001 and 2004, the impact on workload and readiness of these future reductions is yet to be determined. AMC officials, while expressing concerns about challenges they face in meeting the QDR and ongoing reductions, could not point to any significant effects to date other than employee morale. AMC officials stated that the ongoing reductions continue to have only marginal impacts on operations, which they have dealt with so far through various reorganizations and reengineering actions.

The majority of the reductions in fiscal year 2000 should not impact workload because they are based on competitive sourcing studies and efforts to streamline commands. Our prior work has shown that initiatives such as competitive sourcing studies and others that emphasize identifying more efficient organizations often provide opportunities to complete existing workload with fewer employees. In addition, some of the out-year reductions should inherently have no impact on workload because they are based on projected workload decreases. For example, the Soldier and Biological Chemical Command's plan to eliminate 178 positions in the chemical agent destruction activity is based on projected decreases in workload in fiscal year 2004. Similarly, the Tank-automotive and Armaments Command's plan to eliminate about 300 positions is based on projected workload decreases in fiscal years 2003 and 2004.

The QDR reductions do not represent the latest reductions to AMC's personnel. After the QDR, the Army reduced AMC's civilian staffing by another 2,000 positions between fiscal year 2000 and 2005. Furthermore, the Army Vice Chief of Staff established a team to identify options to make AMC more efficient. As indicated earlier, we were not able to obtain any information on the options being considered.

---

## Conclusions

AMC has identified various initiatives to achieve the QDR reductions; however, plans for some of the initiatives are yet to be finalized. Even so, it appears that AMC has enough options to help achieve its reduction goals by fiscal year 2004. However, the reductions will save less than estimated. Delays in initiating some of the planned initiatives and not fully accounting for the investment costs required to implement these actions will likely delay the onset of planned savings. Additionally, other factors are likely to

---

mean less overall savings than initially estimated. Lastly, AMC officials state that the reductions to date have had only marginal impact on performance, which they have been able to deal with. However, it is too early to assess the impact for about 80 percent of the reductions that are scheduled to occur from fiscal year 2001 through 2004.

---

## Agency Comments

We requested comments on a draft of this report from the Secretary of Defense. On March 30, 1999, Office of the Secretary of Defense officials told us that the Department concurred with the report without additional comments.

---

## Scope and Methodology

To obtain information on AMC's plans to achieve the QDR reductions, we interviewed officials and reviewed documents at AMC Headquarters, the Aviation and Missile Command, Huntsville, Alabama; the Tank-automotive and Armaments Command, Warren, Michigan; the Industrial Operations Command, Rock Island, Illinois; the Soldiers Biological and Chemical Command, Aberdeen, Maryland; and the Test and Evaluation Command, Aberdeen, Maryland. To obtain information on the estimated savings, we interviewed officials and reviewed documents from the Army's Office of Program, Analysis and Evaluation and AMC's Office of Resource Management. We obtained information on additional investment costs from officials in the Tank-automotive and Armaments Command, the Soldiers Biological and Chemical Command, and the Army War Reserve Support Command. To obtain information on the impact of the reductions on workload and readiness, we interviewed AMC's Chief of Staff and officials at the various commands visited who were responsible for implementing the initiatives. In addition, we reviewed the impact statements that AMC headquarters prepared for the QDR initiatives.

We conducted our review from December 1998 to February 1999 in accordance with generally accepted government auditing standards.

---

We are sending copies of this report to the Honorable William S. Cohen, Secretary of Defense; the Honorable Louis Caldera, Secretary of the Army; the Honorable William J. Lynn, Under Secretary of Defense (Comptroller); and the Honorable Jacob Lew, Director, Office of Management and Budget. Copies will also be available to others upon request.

---

If you or your staff have any questions concerning this report, please contact me at (202) 512-8412 or my Associate Director, Barry Holman, at (202) 512-5581. Major contributors to this report were William Crocker, Michael Kennedy, and Richard Irving.

A handwritten signature in black ink that reads "David R. Warren". The signature is written in a cursive style with a long horizontal flourish extending to the right.

David R. Warren, Director  
Defense Management Issues

---

List of Congressional Committees

The Honorable John Warner  
Chairman

The Honorable Carl Levin  
Ranking Minority Member  
Committee on Armed Services  
United States Senate

The Honorable Ted Stevens  
Chairman

The Honorable Daniel Inouye  
Ranking Minority Member  
Subcommittee on Defense  
Committee on Appropriations  
United States Senate

The Honorable Floyd Spence  
Chairman

The Honorable Ike Skelton  
Ranking Minority Member  
Committee on Armed Services  
House of Representatives

The Honorable Jerry Lewis  
Chairman

The Honorable John Murtha  
Ranking Minority Member  
Subcommittee on Defense  
Committee on Appropriations  
House of Representatives

---

---

---

# Contents

---

Letter		1
Appendix I The A-76 Process		18
Appendix II Army Materiel Command Quadrennial Defense Review Reduction Goals by Organization		22
Tables	Table 1: AMC Initiatives to Achieve the QDR Reductions by Fiscal Year	5
	Table 2: Status of Initiatives to Achieve QDR Reductions in Fiscal Year 2000	7
Figure	Figure I.1: Overview of the A-76 Process	19

---

---

## Abbreviations

AMC	Army Materiel Command
DOD	Department of Defense
QDR	Quadrennial Defense Review

---

---

# The A-76 Process

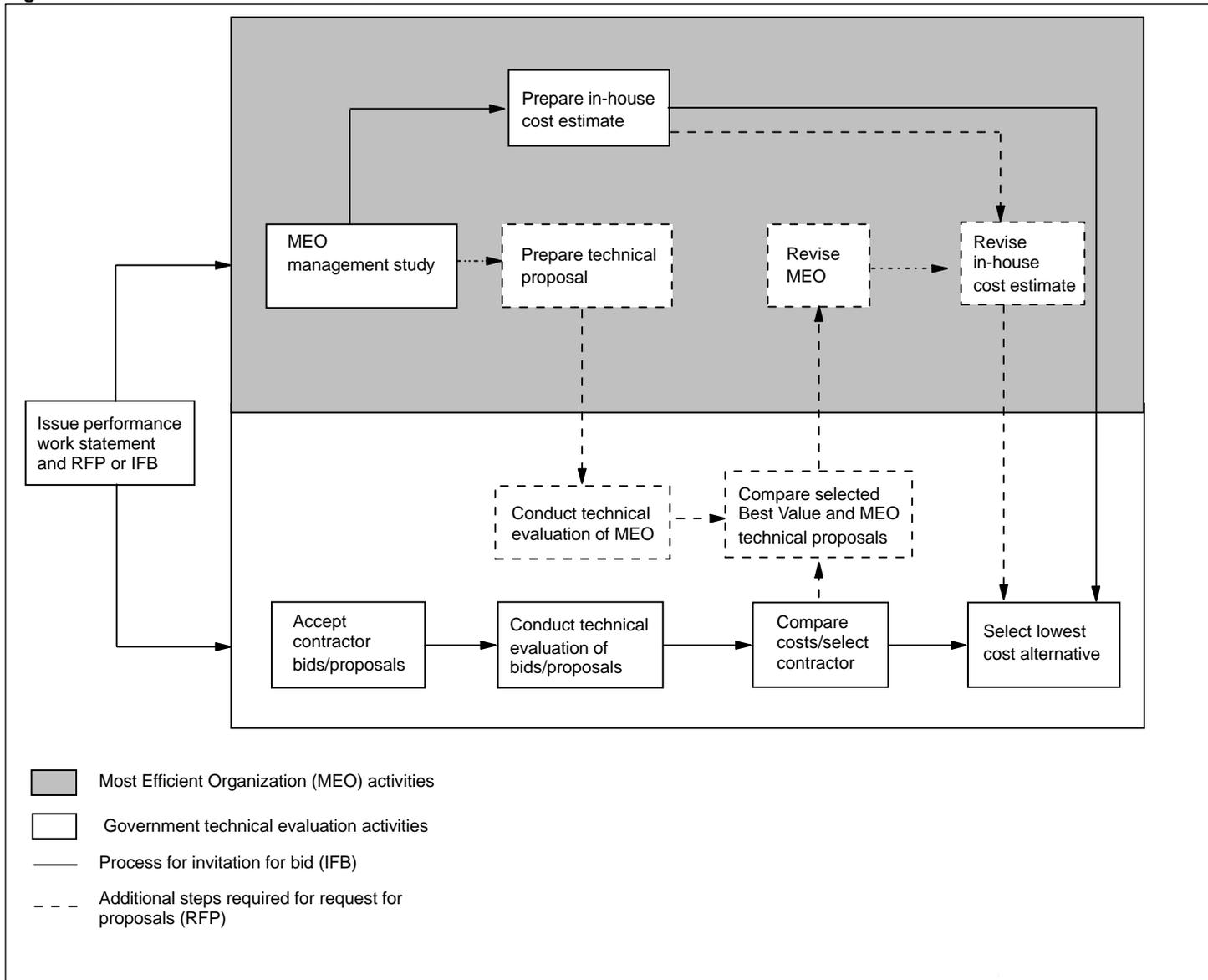
---

In general, the A-76 process consists of five key activities: (1) developing a performance work statement and quality assurance surveillance plan; (2) conducting a management study to determine the government's most efficient organization; (3) developing an in-house government cost estimate for the most efficient organization; (4) issuing a Request for Proposals or Invitation for Bids; and (5) evaluating the proposals or bids and comparing the in-house estimate with a private-sector offer or an interservice support agreement and selecting the winner of the cost comparison. Additionally, appeals may be submitted.

Figure I.1 shows an overview of the process. The solid lines indicate the process used when the government issues an Invitation for Bids requesting firm bids on the cost of performing a commercial activity. This type of process is normally used for more routine commercial activities such as grass-cutting or cafeteria operations, where the work process and requirements are well defined. The dotted lines indicate the additional steps that take place when the government wants to pursue a negotiated, "best value" procurement. While it may not be appropriate for use in all cases, this type of process is often used when a commercial activity involves high levels of complexity, expertise, and risk.

**Appendix I  
The A-76 Process**

**Figure I.1: Overview of the A-76 Process**



Source: Air Force Air Education and Training Command documents.

The circular requires the government to develop a performance work statement. This statement, which is incorporated into either the Invitation for Bids or the Request for Proposals, serves as the basis for both government estimates and private sector offers. If the Invitation for Bid process is used, each private sector company develops and submits a bid, giving its firm price for performing the commercial activity. While this process is taking place, the government activity performs a management study to determine the most efficient and effective way of performing the activity with in-house staff. On the basis of this “most efficient organization,” the government develops a cost estimate and submits it to the selecting authority. The selecting authority concurrently opens the government’s estimate and the bids of all private sector firms.

According to Office of Management and Budget’s A-76 guidance, the government’s in-house estimate wins the competition unless the private sector’s offer meets a threshold of savings that is at least 10 percent of direct personnel costs or \$10 million over the performance period. The Office of Management and Budget established this minimum cost differential to ensure that the government would not contract out for marginal estimated savings.

If the Request for Proposals—best value process—is used, the Federal Procurement Regulation and the A-76 supplemental handbook require several additional steps. The private sector offerors submit proposals that often include a technical performance proposal and a price. The government prepares an in-house management plan and a cost estimate that are based strictly on the performance work statement. On the other hand, private sector proposals can offer a higher level of performance or service.

The government’s selection authority reviews the private sector proposals to determine which one represents the best overall value to the government based on such considerations as (1) performance levels, (2) proposal risk, (3) past performance, and (4) cost to do the work. After this review is completed, the selection authority prepares a written justification supporting its decision. This justification includes the basis for selecting a contractor other than the one that offered the lowest price to the government. Next, the authority evaluates the government’s offer and determines whether it can achieve the same level of performance and quality as the selected private sector proposal. If not, the authority asks the government to change its estimate to meet the performance standards accepted by the authority. This ensures that the in-house cost estimate is based upon the same scope of work and performance levels as the best

---

value private sector offer. After determining that the offers are based on the same level of performance, the cost estimates are compared. As with the Invitation for Bids process, the work will remain in-house unless the private offer is (1) 10 percent less in direct personnel costs or (2) \$10 million less over the performance period.

Following an A-76 cost comparison decision, participants in the cost comparison may appeal the selection authority's decision if they believe the government has not complied with the requirements and procedures of A-76 or question the costs entered by the government on the applicable cost comparison form.

# Army Materiel Command Quadrennial Defense Review Reduction Goals by Organization

Organization	QDR reduction	Pre-QDR fiscal year 2003 baseline	Percent reduction
Industrial Operations Command <sup>a</sup>	1,819	19,510	9
Tank-automotive and Armaments Command	1,391	7,480	19
Communications-Electronics Command	1,322	7,149	19
Aviation and Missile Command	1,317	7,107	19
Test and Evaluation Command	730	4,860	15
Chemical and Biological Defense Command <sup>b</sup>	448	2,701	17
Army Research Laboratory	417	2,370	18
Logistics Support Activity	310	739	42
Army Materiel Command Headquarters	200	784	26
Army Materiel Systems Analysis Activity	143	297	48
Soldier System Command <sup>b</sup>	131	954	14
Simulation and Training Command	96	510	19
Separate Reporting Activities	74	348	21
Logistics Integrated Activity	57	92	62
Management Engineering Activity <sup>c</sup>	32	66	48
U.S. Army Security Assistance Command	31	541	6
Test Directorate	12	62	19
Army Research Office <sup>d</sup>	0	115	0
<b>Total</b>	<b>8,530</b>	<b>55,685</b>	<b>15</b>

<sup>a</sup>This command includes personnel at the five depots that were later transferred to other major subordinate commands in the Army Materiel Command.

<sup>b</sup>These commands were later merged into the Soldier and Biological Chemical Command.

<sup>c</sup>This activity was later combined with the U.S. Army Material Systems Analysis Activity.

<sup>d</sup>This office was later merged with the Army Research Laboratory.

Source: Army data.

---

## Ordering Information

The first copy of each GAO report and testimony is free. Additional copies are \$2 each. Orders should be sent to the following address, accompanied by a check or money order made out to the Superintendent of Documents, when necessary. VISA and MasterCard credit cards are accepted, also. Orders for 100 or more copies to be mailed to a single address are discounted 25 percent.

### Orders by mail:

U.S. General Accounting Office  
P.O. Box 37050  
Washington, DC 20013

### or visit:

Room 1100  
700 4th St. NW (corner of 4th and G Sts. NW)  
U.S. General Accounting Office  
Washington, DC

Orders may also be placed by calling (202) 512-6000 or by using fax number (202) 512-6061, or TDD (202) 512-2537.

Each day, GAO issues a list of newly available reports and testimony. To receive facsimile copies of the daily list or any list from the past 30 days, please call (202) 512-6000 using a touchtone phone. A recorded menu will provide information on how to obtain these lists.

For information on how to access GAO reports on the INTERNET, send an e-mail message with "info" in the body to:

[info@www.gao.gov](mailto:info@www.gao.gov)

or visit GAO's World Wide Web Home Page at:

<http://www.gao.gov>

---

**United States  
General Accounting Office  
Washington, D.C. 20548-0001**

**Bulk Rate  
Postage & Fees Paid  
GAO  
Permit No. G100**

**Official Business  
Penalty for Private Use \$300**

**Address Correction Requested**

---

